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THE HANNA MINING COMPANY 1965

DIRECTORS

Stephen D. Bechtel, Jr.
 Warren Bicknell, Jr.
 Herbert Hoover, Jr.
 Gilbert W. Humphrey
 R. L. Ireland, III
 George H. Love
 Walter A. Marting
 William H. Moore
 N. W. Pearson
 H. L. Pierce
 Joseph H. Thompson
 Richard W. Whitney
 George W. Wyckoff

EXECUTIVE COMMITTEE

Gilbert W. Humphrey
 George H. Love
 Walter A. Marting
 Joseph H. Thompson

OFFICERS

Gilbert W. Humphrey, *Chairman of the Board*
 Joseph H. Thompson, *Chairman of the Executive Committee*
 Walter A. Marting, *President*
 Robert J. Linney, *Executive Vice President*
 Robert F. Anderson, *Vice President, Domestic Operations*
 J. W. Buford, *Vice President, Foreign Operations*
 James N. Purse, *Vice President, Sales*
 Lawrence W. Spang, *Vice President and Secretary*
 D. N. Vedensky, *Vice President, Research*
 Gordon L. Way, *Vice President, Engineering*
 Walter P. Weber, *Vice President, Mineral Properties*
 Russell E. Beal, *Treasurer*
 L. H. Carlson, *Comptroller*

Registrar and Transfer Agent:

The National City Bank of Cleveland, Cleveland, Ohio

FINANCIAL HIGHLIGHTS

	For the Year	
	1965	1964
Net Sales and Operating Revenues . .	\$148,193,082	\$135,586,294
Operating Income before		
Depreciation and Depletion	\$ 16,427,001	\$ 14,945,337
Depreciation and Depletion	\$ 5,078,411	\$ 5,480,715
Dividend Income	\$ 8,959,592	\$ 7,756,499
Net Income	\$ 16,459,895	\$ 14,057,217
Net Income per Share	\$3.84	\$3.29
Dividends per Share	\$1.00	\$.95

	At the Year-End	
	1965	1964
Working Capital	\$ 51,849,921	\$ 51,030,818
Stockholders' Equity	\$147,272,963	\$134,966,480
Book Value Per Share	\$34.38	\$31.55
Shares Outstanding	4,283,295	4,278,145

Cover: At Iron Ore Company of Canada Carol Lake project, grinding mills reduce crude ore to the fineness of sand, liberating the iron particles for later separation.



National Steel taconite project will be 2.4 million ton plant; similar Butler project, six miles away, will produce 2 million tons a year.

To the Stockholders of The Hanna Mining Company

A Year of Record Production and Earnings

During 1965 we produced record amounts of iron ore and nickel and once again are able to report net income at a new all-time high. Earnings in 1965 were \$16,459,895, or \$3.84 per share of common stock outstanding. This is 17 percent above 1964 earnings of \$14,057,217, or \$3.29 per share. Net sales and operating revenues were \$148,193,082, an increase of 9 percent over the comparable figure for 1964, \$135,586,294.

Dividend income totaled \$8,959,592, up from \$7,756,499 in 1964, and included \$4,179,867 from Iron Ore Company of Canada, the fourth consecutive annual dividend of this proportion. Also included in 1965 income was the fourth quarter dividend on the 1,000,000 shares of National Steel Corporation stock which we acquired from The M. A. Hanna Company in November for \$58.75 per share in exchange for cash and \$50,000,000 of 4¾% debentures. This

stock ownership will maintain and strengthen the close operating relationship that has existed between Hanna Mining and National Steel.

Depreciation and depletion charges were reduced slightly to \$5,078,000, which, when combined with greater net income, resulted in cash flow of \$21,538,000. In 1964 cash flow totaled \$19,538,000, including charges for depreciation and depletion of \$5,481,000.

Working capital at year-end totaled \$51,850,000, virtually the same level as that of the year before, although expenditures included \$8,750,000 for the purchase of the National Steel stock and \$10,282,000 for plant and equipment and for working assets in associated companies. Additions to working capital included a \$3,027,000 principal payment on our I.O.C. debentures, reducing our holdings in these securities to \$9,000,000.

A Year of Building, Further Expansion Planned

Work proceeded without interruption on the pellet plants being built in Minnesota and Missouri. The first of these plants is scheduled to begin operation early next year and all three will be in production by early 1968.

Plans were announced recently for a major expansion of Iron Ore Company of Canada, with the annual capacity of the Carol project to be increased to 10 million tons of iron ore pellets, at which time sales of I.O.C. ore to partners will be increased from a base of 13 million tons a year to 16 million tons.

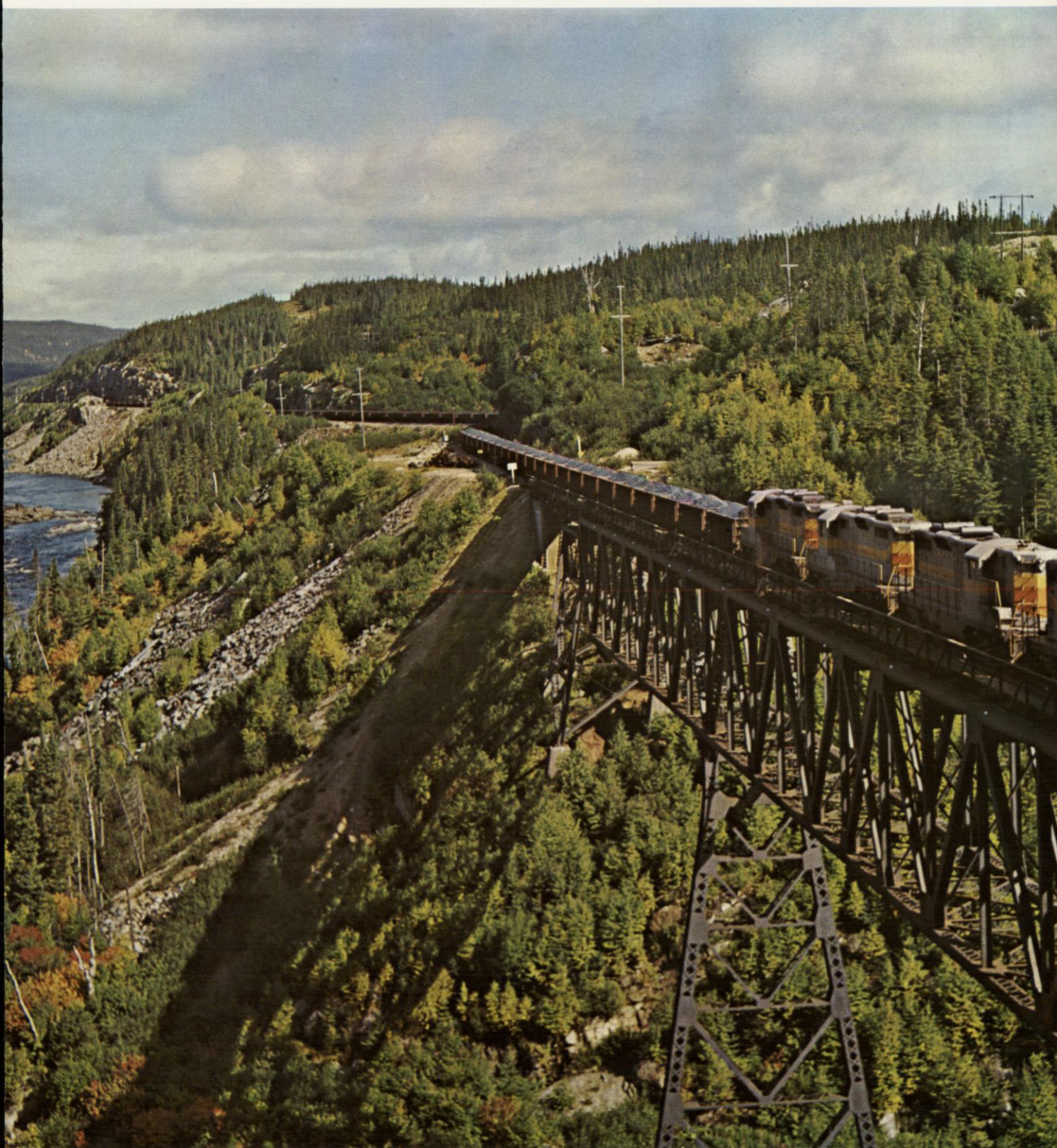
Overseas, a major step forward was taken with the completion of plans to merge the iron ore properties of St. John d'el Rey Mining Company with those of a major Brazilian mining enterprise, with expanded production being studied. In addition, the Australian iron ore development in which we have a 25 percent participation is nearing completion.

For Hanna Mining, probably the most significant effect of the liquidation of The M. A. Hanna Company, announced in October, is the addition of a considerable number of new shareholders. We welcome these new owners of the company and suggest that they make a particular point of examining

pages 14 and 15, which contain a summary of key financial data of the years since Hanna Mining was established as an independent corporation in 1958. The achievements of these eight years provide a sound foundation for increased activities and improved performance in the future.

The opportunities of the future — and the challenges — are great, for today the iron ore industry is engaged in an immense expansion of its capacity to produce high grade iron ore pellets, the raw material most sought-after by the steel industry. Production in North America has grown from a few thousand tons in 1954 to more than 40 million tons in 1965, with more to come.

Hanna Mining is deeply involved in the expansion of pellet facilities. Of the 27 million tons of ore produced by Hanna-operated properties in 1965, 7.5 million tons were iron ore pellets produced for ourselves and for the account of others. Within two years, with the completion of the three new plants and the expansion of Carol, we will operate plants capable of producing nearly 17.5 million tons of pellets a year, of which 5.4 million tons will be for our own account.



*Iron ore pellets from I.O.C. Carol Lake project
move over Moisie River Bridge north of Sept Iles.*

Iron Ore-United States

Record Tonnages of Ore, New Pellet Plants Under Way

Hanna Mining Iron Ore Sales For Its Own Account
From U. S. Production — Tons

	1965	1964	1963	1962
Company Production	4,235,076	3,694,311	3,614,098	2,250,203
Purchased from Affiliates	1,217,990	1,242,374	1,701,099	1,778,748
Total	5,453,066	4,936,685	5,315,197	4,028,951

The company production tonnage in 1965 is an all-time record and results from a 10 percent increase in the production of Groveland pellets, combined with increased tonnages of ore from our Douglas and Spring Valley properties in Minnesota.

The Groveland plant produced 1,615,000 tons of iron ore pellets, operating with improved efficiency throughout the year. This was 140,000 more tons than the plant produced in 1964, its first full year of operation, and is well above its designed capacity.

Much of our attention during the year was devoted to the design, engineering and construction of the three new pellet plants, which will be managed by Hanna Mining and are due for completion in 1967 and early 1968.

The first of these scheduled to go on-stream, the Butler taconite project, is a 2-million-ton-per-year facility located near Cooley, Minnesota, on the Mesabi Range and is scheduled for operation early in 1967. We have 37½ percent participation in the Butler project, the balance being owned by Inland Steel Company and Wheeling Steel Corporation.

The second pellet facility, to begin operating in the spring of 1967, is the National Steel Pellet Plant, owned by National Steel Corporation and Hanna Mining, our participation being 15 percent. This 2.4 million-ton-per-year plant, near Keewatin on the Mesabi Range, will produce iron ore pellets by a new system, developed by a research project conducted by National Steel, Hanna Mining and the Surface Combustion Division of Midland-Ross Corporation.

In Missouri, work proceeded on the development of an underground iron ore mine and concentrating-pelletizing plant, owned jointly by Granite City Steel Company and Hanna Mining. Located near Pilot Knob, 90 miles south of St. Louis, the plant will produce 750,000 tons of pellets annually, beginning in 1968. Work began on the 1350-foot mine shaft and at the 570-foot level a drift was driven to the orebody for a bulk sample for research on plant design. By

year-end the 20-foot diameter, concrete-lined shaft had been sunk to the 920-foot level.

Despite the dramatic transition to volume production of high grade iron ore pellets, we expect that shipments of traditional Lake Superior ores will continue at good levels for the next several years and our properties will be able to supply the anticipated demand.

Present mining operations were completed at the Butler Brothers properties near Cooley and the Mississippi Group mine of Hanna Ore Mining Company, both of which contain taconite reserves to be mined in conjunction with the new Minnesota pellet projects. Ore stockpiles were established at both properties for 1966 shipment. Hanna Ore Mining, 15 percent owned by Hanna Mining, will continue to produce ore from its Pierce Group Mine, with reserves sufficient for several years of operation.

After eleven years of mining at the Morton Mine, in which we have a 59½ percent interest, the orebody was exhausted and the mine shut down. At the same time, Hanna Mining has leased the Rabbit Lake Mine on the Cuyuna Range in Minnesota. Development work and construction of a washing plant at this property will be completed prior to the opening of the 1966 season.

Iron Ore-Canada

Ore Shipments Remain High, Increase Pellet Capacity

Hanna Mining Iron Ore Sales For Its Own Account
From Canadian Production — Tons

	1965	1964	1963	1962
From Iron Ore Company of Canada and Carol Pellet Company	2,878,143	2,786,275	2,068,229	2,146,439

Shipments by Iron Ore Company of Canada in 1965 totaled nearly 13.9 million tons, as compared to 14.1 million tons in 1964. Of the 1965 tonnage, more than 7 million tons were direct-shipping ore, 1.6 million tons were concentrates, and more than 5.3 million tons were pellets from the Carol Pellet Company, owned by the ore-consuming partners of I.O.C.

Of great significance was the recent decision to expand the concentrator and pelletizing plants at Carol Lake to an annual capacity of 10 million tons by late 1967, at which point Carol will be one of the largest iron ore pellet plants in the world.

When the Carol expansion is completed and the annual sales base of I.O.C. is increased to 16 million

tons, we, along with all other partners, will have the cost advantages inherent in expanded operation.

Initial production is beginning at I.O.C.'s magnetic separation plant, increasing the concentrator capacity by about 10 percent by recovering a portion of the magnetic iron particles now passing through the spiral concentrators. Since the mine and the primary crusher already are capable of supplying crude ore for a 10-million-ton-plant, the only additional major expenditure for increased concentrating capacity will be for two new grinding mills and spiral concentrator lines.

At the Carol pellet plant, two pelletizing lines with a capacity of 2 million tons each will be added to the four now in operation, which have capacities of about 1.5 million tons each. The expansion program will cost more than \$50,000,000.

This will bring to more than \$550,000,000 the amount invested in the Iron Ore Company of Canada development, one of the world's important sources of natural ore and high grade iron ore pellets. Employment is more than 4000 and the 1965 payroll exceeded \$37,000,000, all in a territory that 15 years ago had no permanent inhabitants.

By the end of 1965, its eleventh year of production, I.O.C. had shipped nearly 122 million tons of iron ore, concentrates and pellets from the port of Sept Iles on the Gulf of St. Lawrence to steelmakers in the United States, Canada, the United Kingdom and Europe. This is nearly half of all Canadian iron ore produced since 1954, when I.O.C. began operating. We are the largest single shareholder of I.O.C. and our interest in the company is one of our most important assets.

In December, Joseph H. Thompson retired as chairman of the board of I.O.C. and was succeeded by Walter A. Marting. Succeeding Mr. Marting as president was William J. Bennett, O.B.E., who joined the company in 1960 as vice president and director after more than 20 years of outstanding achievement in Canadian government service and industrial management.

Iron Ore-Overseas

Realignment in Brazil, Australian Production Ready

Brazil — Late in December we announced plans to combine the Brazilian iron ore properties of St. John d'el Rey Mining Company with those of Companhia Auxiliar de Empresas de Mineracao (CAEMI), to



Headframe for Pilot Knob Mine in Missouri rises behind steelwork for adjacent service building.

form a new Brazilian company with ore reserves ranking among the greatest in the world.

Forty-nine percent of the new company, Minerações Brasileiras Reunidas (MBR), will be owned by St. John d'el Rey, in which we have the controlling interest. CAEMI will own 51 percent.

CAEMI and St. John for several years have been moving in much the same direction in their attempts to develop Brazilian iron ore reserves. By joining forces they will be able to reduce capital and operating costs, thus improving the competitive position of Brazilian iron ore in the world market, an essential factor as arrangements for marketing and financing are undertaken. We will bring to the venture our world-wide experience in iron ore operations and CAEMI will contribute its extensive experience in Brazilian iron and manganese ores.

We view this agreement as an important step forward. Our new associates are leading businessmen in Brazil, the new company will have the resources necessary for sound development, and Brazilian government authorities have given assurance of their support. Much remains to be done before definite plans can be decided upon, but we believe this is an excellent opportunity for long-term operation, with the prospect of outstanding benefits for all concerned.

The 700,000 tons shipped in 1965 by Companhia de Mineracao Novalimense, a Brazilian subsidiary of St. John d'el Rey, represent considerable progress. Problems of railway transport and shiploading had held shipments to the 400,000-ton range for the previous two years.

Australia — On target for initial shipments this spring is the Koolanooka Mine, in which we have a 25 percent participation. Initial production is based on an agreement to deliver 5.1 million tons over an eight-year period, at a rate of about 700,000 tons a year, to a group of Japanese steel companies. Western Mining Company of Australia has a 50 percent participation in this project, with Homestake Mining Company of San Francisco having the remaining 25 percent.

Marine Operations

Cost Increases Continue In Dock and Vessel Operations

The transportation and handling of bulk commodities — iron ore, coal and grain — is an adjunct to our ore mining and marketing activities. This entire segment of the iron ore industry has been adversely

affected by the switch to high grade ores, for the simple reason that fewer tons of ore are required to provide the same number of iron units. By maintaining close control of all aspects of our dock and vessel costs we have been able to operate profitably, despite continuing labor cost increases without corresponding productivity and revenue increases.

In 1965 Hanna-operated vessels on the Great Lakes carried 5.4 million tons of iron ore, as compared to nearly 5 million tons in 1964. The Canadian flag vessels we operate in the Great Lakes-Seaway trade carried slightly more than 1 million tons of ore, about the same as the previous year, and 23.8 million bushels of grain, as compared to 25.7 million bushels in 1964.

The unloading docks we operate in Cleveland, Ashtabula and Philadelphia handled 11.6 million tons of iron ore, as compared with about 11 million tons in each of the two previous years. The coal loading docks in Sandusky and Ashtabula handled 3.4 million tons, as compared to 6.5 million tons in 1964.

Nickel Operations

Production Sets New Record, Demand Continues Strong

The mine and smelter at Riddle, Oregon, produced a record 25,333,000 pounds of nickel in 1965, the first full year of production following an expansion of capacity of about 20 percent. This compares to 1964 production of 22,473,000 pounds and 1963 output of 21,448,000 pounds.

The product of the smelter is ferronickel, used widely in the production of stainless and other nickel alloy steels. Demand among U. S. steelmakers continues at a high level and if 1966 steel production approximates present forecasts we expect to operate the facility at capacity.

At the request of the government we recently concluded an agreement to buy ferronickel from government stockpile for orderly distribution to industrial consumers. We will buy a minimum of 39 million pounds of contained nickel, at market price less freight, handling and related costs, at a rate of about 8 million pounds a year for the next four and one-half years. We also have the right to purchase an additional 25 million pounds of nickel after the 39 million pounds have been disposed of, which would cover virtually all the ferronickel in stockpile. The agreement is part of the government's program to dispose of nickel deemed excess in the Defense Production Act inventory. The government has announced simi-



In Oregon, nickel ore descends to smelter over aerial tramway more than a mile and a half long.



Iron Ore Company of Canada's Smallwood Mine provides ore for Carol Lake concentrating-pelletizing project.

lar nickel disposal programs which it has worked out with other major producers, International Nickel Company, Falconbridge Nickel Mines, and Sherritt Gordon Mines.

The Federal District Court in Oregon recently rendered a decision in the legal action brought by the government in 1963, challenging the accounting principles involved in the contract under which we supplied nickel to government stockpiles several years ago.

In its decision, the Court declared, "There is no evidence that the company acted wrongfully or failed to make its accounting decisions and practices known to the government."

The Court's ruling vindicates the company's position and removes any question of the integrity of the company's performance and accounting.

The Court ruled in Hanna's favor on the accounting questions in dispute, except for some minor items and \$215,000 of expenditures near the end of the contract period, most of which were already under discussion with the General Services Administration when the 1962 Senate investigation of the entire stockpile program interrupted negotiations. The

amounts referred to in the ruling, along with resulting price adjustments in the termination agreements, will amount to less than one-half of one percent of the total contract.

In its principal claim, the government had sought to recover \$1,739,000 representing 284 separate items which it said Hanna had improperly expensed rather than capitalized. Before the case was heard last July, the government withdrew 68 of the items, leaving in dispute 216 items totaling \$1,392,000.

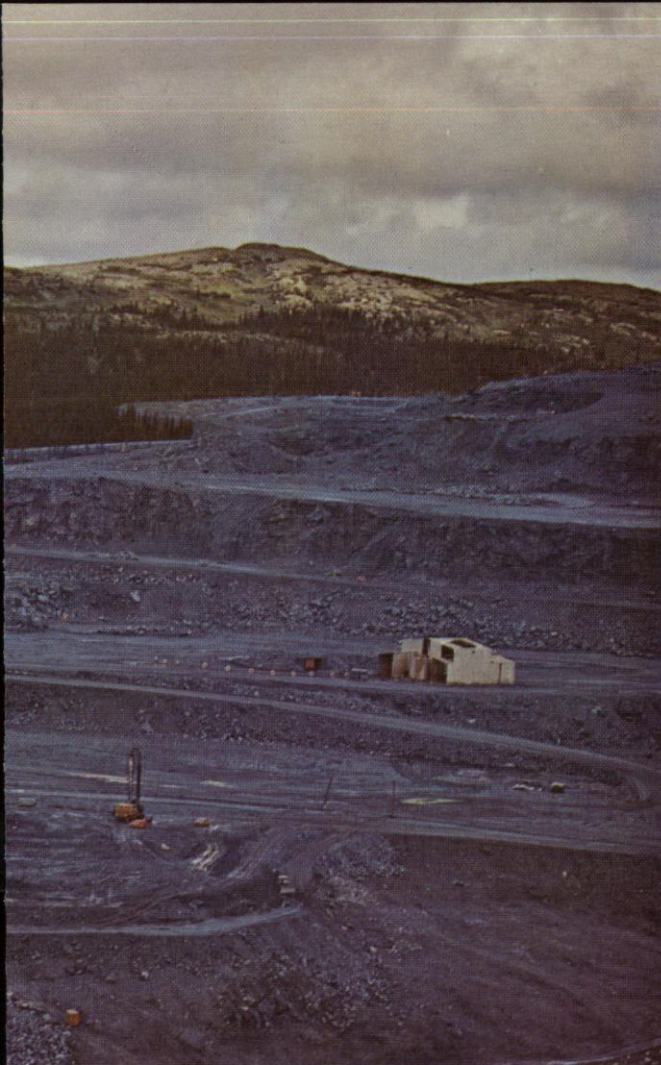
The government has indicated its intention to appeal the ruling of the District Court.

Exploration and Research

Major Activities Focused On New Pellet Plants

As a reflection of the increased role of geology and metallurgy in today's complex technologies, most of our research and much of our exploration in 1965 were directly related to the three new pellet plants now under construction.

Detailed geological studies of the orebodies were made to help guide the planning and development of



the mines, in order that the natural characteristics of the deposits may be utilized to best advantage. For example, while the taconite bodies at both Minnesota pellet plants are essentially similar, there is a considerable range in the types of taconite in the deposits, including variations in such factors as iron content, particle size and grindability, and the use of information of this kind in ore blending is essential to the most effective operation of the projects.

Our research activities included operation of a pilot plant in Minnesota to study autogenous grinding, developing data for the two new Minnesota pellet plants both of which will employ dry grinding techniques. It appears that autogenous grinding — in which crude ore fragments are ground against each other, rather than against steel balls and rods — will enable these plants to produce extremely high quality concentrates, containing about 66 percent iron and 3 percent silica, at a fully competitive cost.

On completion of this work, the pilot plant was converted for the study of wet semi-autogenous grinding, which is the method best suited for use in the Missouri concentrator.

Meanwhile an adjacent pilot plant being operated

by the Surface Combustion Division of Midland-Ross Corporation developed data on the production of oxidized pellets by a new process and it was decided to employ this process in the National Steel pellet plant.

Following the successful production of oxidized pellets, the pilot plant was converted for the study of partially-reduced pellets, which is now in progress.

Elsewhere, our geological staff examined numerous base metal deposits throughout North America and in other parts of the world, with nothing of commercial significance found. Further exploration of nickel laterite deposits in Colombia resulted in a moderate expansion of reserves.

In Guatemala, a 40-year grant of mining rights was made to Exploraciones y Explotaciones Mineras Izabal, S.A., in which Hanna Mining has 20 percent participation. The grant followed several years of exploration of nickel laterite deposits and studies of a commercial development are now under way.

Work continued on the proposed aluminum project in Brazil, with bauxite to come from a property held by Aluminum Company of America and Hanna Mining in the State of Minas Gerais. With technological and economic feasibility established, attention is now being given to financing and participation by Brazilian investors.

Management

Early this year Gilbert W. Humphrey, chairman of the board of The M. A. Hanna Company, was elected chairman of the board of The Hanna Mining Company following the retirement of Joseph H. Thompson, who was elected chairman of the Hanna Mining executive committee.

Mr. Humphrey was president of Hanna Mining when the company was established as an independent corporation in 1958, a position he held until 1960. He became chairman of the Hanna Mining executive committee in 1961.

Mr. Thompson has been associated with Hanna since 1937, when he joined The M. A. Hanna Company as a vice president. He was elected president of M. A. Hanna in 1952, when George M. Humphrey resigned to become Secretary of the Treasury. At the same time he became chairman of Hanna Mining, then a consolidated subsidiary of M. A. Hanna. For nearly three decades Mr. Thompson served in the top management of the Hanna organization and to him must go much of the credit for the development of Iron Ore Company of Canada. We are fortunate that he will continue to serve as a director and chairman

of the executive committee and that his counsel will be available to us.

The Hanna Mining board was enlarged to thirteen with the election of four new directors: Stephen D. Bechtel, Jr., Warren Bicknell, Jr., R. L. Ireland, III, and George W. Wyckoff. All are businessmen of broad experience who will add important strength to the Hanna Mining board.

Mr. Bechtel is president of Bechtel Corporation, San Francisco engineering and construction organization. Mr. Bicknell is a Cleveland construction executive. Mr. Ireland is a partner of Brown Brothers Harriman & Co., New York. Mr. Wyckoff is a vice president of T. Mellon & Sons, Pittsburgh.

H. L. Pierce has announced his intention not to stand for re-election as a director, bringing to an official close a relationship with the Hanna organization that spans 60 years. He joined M. A. Hanna in 1906 and over the years held many top management positions with the company and its affiliates. The Pierce Mine at Hibbing is named in his honor and the true worth of his years with the company is beyond measure.

Despite Cost Pressures, Outlook is Excellent

Our major business is supplying the steel industry and the demand for our raw materials continues at a high level. Steel production in the U. S. in 1965 totaled 131 million tons, exceeding the previous record of 127 million tons set in 1964, and at the present time the outlook for 1966 is excellent.

We of the iron ore industry make important contributions to the steel industry's unrelenting drive to maintain and strengthen its competitive position. Hanna Mining's major involvement is through iron ore pellets, which provide important savings at the first and most basic step of the steelmaking process: the conversion of enormous tonnages of iron ore to metallic iron in blast furnaces. Pellets provide at least 20 percent more iron units per ton of blast furnace feed than the traditional Lake Superior ores and current research indicates that even greater improvements may be possible in the future. Ferro-nickel, too, makes important cost reduction contributions in a specialized, rapidly growing sector of the steel industry.

At the same time, we are confronted with our own

Lawrence W. Spang, secretary of Hanna Mining since 1951, was elected a vice president. He will continue to serve as secretary and chief legal officer.

Gordon L. Way, who joined the company early in 1965, was elected vice president in charge of engineering in April, succeeding the late Fred D. Vines, who had headed Hanna engineering activities since 1950. Mr. Vines' responsibilities were great during a period of expansion that was unmatched in diversity and complexity. He discharged his duties with skill and perseverance and his contributions to the company were immeasurable. Mr. Way, formerly with the Bechtel Corporation, was closely identified with the design and construction of the nickel smelter at Riddle, Oregon, and the concentrating-pelletizing plants at Moose Mountain, Groveland, and Carol.

Walter P. Weber, a veteran of more than 30 years in the mining industry, was elected vice president in charge of mineral properties and will continue to be responsible for the acquisition and administration of mineral lands and auxiliary properties, both domestic and foreign.

severe competitive and cost pressures, the most serious of which in recent years was the large wage-benefit package granted employees in the 1965 negotiations with the United Steelworkers of America. This agreement calls for large increases in each of its three years.

The problem is heightened since there has been no increase in the price of iron ore since 1957 and, in fact, the price of Lake Superior natural ores was reduced in 1962.

For the immediate future at least, the solution must be even more vigorous attention to cost reduction and improvement of methods, activities that have played a major part in our performance in recent years.

We feel confident of our position in the industry in the years to come, for our organization is experienced and our resources — both technological and financial — are excellent. We are proud to acknowledge that the major credit for the company's accomplishments go to all the people of Hanna.

By Order of the Board of Directors,

GILBERT W. HUMPHREY
Chairman

WALTER A. MARTING
President

Cleveland, Ohio, March 7, 1966



Ore carrier off Sept Iles

THE HANNA MINING COMPANY AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED INCOME

	YEAR ENDED DECEMBER 31	
	1965	1964
Income:		
Net sales and operating revenues	\$148,193,082	\$135,586,294
Dividend income:		
Iron Ore Company of Canada	4,179,867	4,179,867
Other	4,779,725	3,576,632
Interest income	1,925,322	1,600,158
Sundry income	344,358	222,044
	<u>\$159,422,354</u>	<u>\$145,164,995</u>
Costs and expenses:		
Cost of goods sold and operating expenses	\$126,835,679	\$116,475,069
Selling, general, and administrative expenses	4,930,402	4,165,888
Depreciation and depletion	5,078,411	5,480,715
Interest on long-term debt	555,118	— 0 —
	<u>\$137,399,610</u>	<u>\$126,121,672</u>
INCOME BEFORE TAXES ON INCOME	\$ 22,022,744	\$ 19,043,323
Taxes on income — estimated:		
United States	\$ 5,119,000	\$ 4,575,000
Canadian and state	443,849	411,106
	<u>\$ 5,562,849</u>	<u>\$ 4,986,106</u>
NET INCOME	<u>\$ 16,459,895</u>	<u>\$ 14,057,217</u>

STOCKHOLDERS' EQUITY

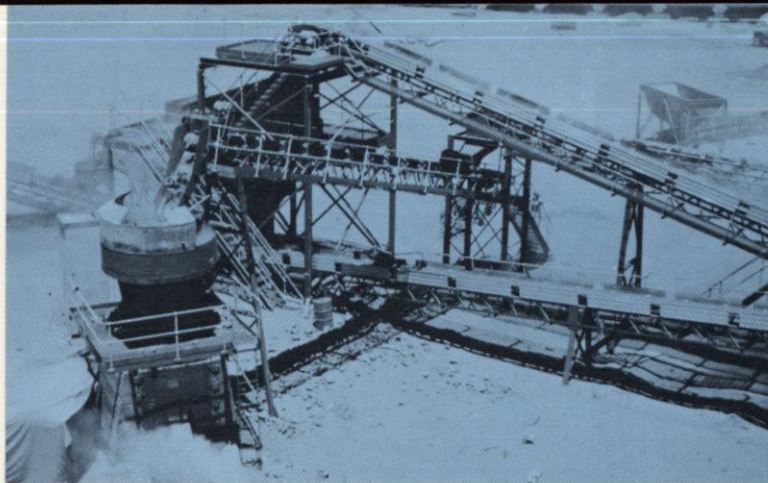
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at January 1, 1965	\$4,293,295	\$20,095,999	\$110,989,829	\$(412,643)	\$134,966,480
Net income for the year			16,459,895		16,459,895
Cash dividends — \$1 a share			(4,281,195)		(4,281,195)
Proceeds from 8,150 shares sold under stock option plan	8,150	254,008			262,158
Cost of 3,000 shares acquired for treasury				(134,375)	(134,375)
Balance at December 31, 1965	<u>\$4,301,445</u>	<u>\$20,350,007</u>	<u>\$123,168,529</u>	<u>\$(547,018)</u>	<u>\$147,272,963</u>

See notes to financial statements.

CONSOLIDATED BALANCE SHEETS

ASSETS

	DECEMBER 31	
	1965	1964
CURRENT ASSETS		
Cash	\$ 2,951,905	\$ 2,666,885
U. S. Government and other short-term securities — at cost . .	44,532,517	37,925,117
Trade and sundry receivables	16,896,325	18,679,005
Inventories — at lower of average cost or market:		
Iron ore	\$ 4,422,190	\$ 2,871,728
Nickel	880,703	629,598
Supplies	3,277,225	2,656,574
	<u>\$ 8,580,118</u>	<u>\$ 6,157,900</u>
TOTAL CURRENT ASSETS	\$ 72,960,865	\$ 65,428,907
PROPERTY, PLANT, AND EQUIPMENT		
Mineral lands, oil leases, plants, vessel, and equipment		
— at cost	\$ 72,578,380	\$ 68,608,213
Less allowances for depreciation, depletion, and amortization .	43,297,919	39,560,978
	<u>\$ 29,280,461</u>	<u>\$ 29,047,235</u>
OTHER ASSETS		
Working assets — Interests in associated companies:		
Iron Ore Company of Canada — at cost	\$ 32,275,816	\$ 35,302,816
Others — at cost or less — Note A	19,180,581	16,966,768
Interests in other companies:		
National Steel Corporation — at cost		
(market price \$62,375,000)	58,750,000	— 0 —
Others — at cost or less	5,753,847	4,820,873
Management contracts, advance royalties, and sundry items .	4,277,702	4,027,652
	<u>\$120,237,946</u>	<u>\$ 61,118,109</u>
	<u>\$222,479,272</u>	<u>\$155,594,251</u>



Koolanooka screen plant and secondary crusher

LIABILITIES AND STOCKHOLDERS' EQUITY

	DECEMBER 31	
	1965	1964
CURRENT LIABILITIES		
Trade and sundry payables	\$ 12,143,544	\$ 8,348,648
Accrued expenses	6,967,400	6,049,441
U. S. taxes on income — estimated	3,116,083	2,175,958
U. S. Government securities	(3,116,083)	(2,175,958)
Current portion of long-term debt	2,000,000	— 0 —
TOTAL CURRENT LIABILITIES	\$ 21,110,944	\$ 14,398,089
LONG-TERM DEBT — Note B		
4¾% Sinking Fund Debentures — payable \$2,000,000 annually	48,000,000	— 0 —
RESERVES		
General contingencies	\$ 4,876,045	\$ 5,110,162
Other	1,219,320	1,119,520
	\$ 6,095,365	\$ 6,229,682
STOCKHOLDERS' EQUITY		
Common Stock, par value \$1 a share — Note C:		
Authorized 4,500,000 shares		
Issued 4,301,445 shares in 1965 and 4,293,295 shares in 1964	\$ 4,301,445	\$ 4,293,295
Capital surplus	20,350,007	20,095,999
Retained earnings	123,168,529	110,989,829
Cost of stock in treasury (18,150 shares in 1965 and 15,150 shares in 1964)	(547,018)	(412,643)
	\$147,272,963	\$134,966,480
	\$222,479,272	\$155,594,251

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Note A – Unconsolidated Subsidiaries

The carrying amount of interests in unconsolidated subsidiaries amounts to \$12,975,000 at December 31, 1965. The Company's equity in the net income of such subsidiaries for the year 1965 and since dates of acquisition approximated the dividends received from such subsidiaries.

Note B – Sinking Fund Debentures

The Indenture contains limitations relative to cash dividends and other stock payments. Approximately \$21,000,000 of the retained earnings at December 31, 1965, was free of such limitations.

Note C – Stock Options

Certain key personnel have been granted options to purchase Common Stock of the Company. Options granted prior to January 1, 1964 were at 95% of market price at date of grant and options granted since that date were at market. Options run for periods of five or seven years and become exercisable in cumulative installments after the first year. Changes during 1965 in options outstanding were as follows:

	Shares Under Options	Average Option Price Per Share
Outstanding January 1, 1965	67,250	\$33.07
Granted	82,000	47.38
Less:		
Exercised	8,150	32.17
Cancelled	<u>2,520</u>	<u>32.17</u>
	10,670	
Outstanding December 31, 1965	<u>138,580</u>	41.61

Note D – Contingent Liabilities

Under certain conditions, the Company might be required to make payments on long-term obligations of certain associated mining companies, in proportion to the Company's interests in such companies. At December 31, 1965, the Company was contingently liable under such arrangements, in the amount of approximately \$20,000,000.

ACCOUNTANTS' REPORT

Board of Directors
The Hanna Mining Company
Cleveland, Ohio

We have examined the consolidated financial statements of The Hanna Mining Company and its consolidated subsidiaries for the year ended December 31, 1965. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income and stockholders' equity present fairly the consolidated financial position of The Hanna Mining Company and its consolidated subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Cleveland, Ohio
February 23, 1966

Ernst & Ernst

INCOME

Net Sales and Operating Revenue

Operating Income before
Depreciation, Depletion, and
Amortization

Depreciation, Depletion, and
Amortization

Dividend Income

Taxes on Income

Net Income

Net Income Per Share (A)

Cash Dividends

Dividends Per Share (A)

BALANCE SHEET

Working Capital

Property, Plant, and Equipment

Other Assets

Long-Term Debt

Total Invested Capital

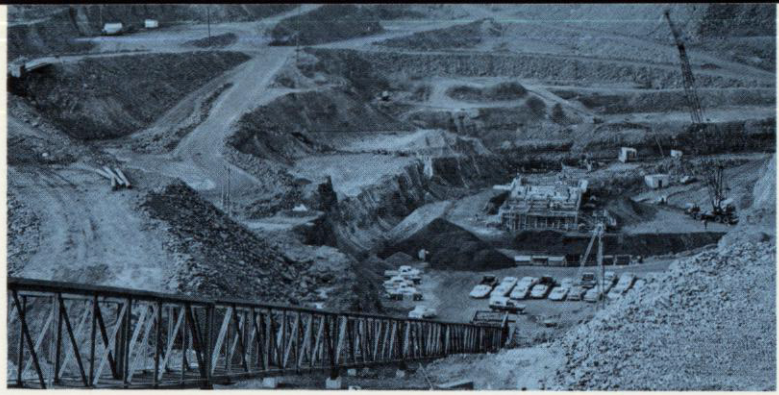
Less Reserves

Total Stockholders' Equity

Shares Outstanding (A)

Book Value per share (A)

(A) Adjusted for 3-for-1
stock split in May, 1964.



Butler taconite project primary crusher

EIGHT YEAR FINANCIAL COMPARISON

1965	1964	1963	1962	1961	1960	1959	1958
8,193,000	135,586,000	124,594,000	100,818,000	90,236,000	90,341,000	86,950,000	78,132,000
6,427,000	14,945,000	13,728,000	11,087,000	12,656,000	13,304,000	9,641,000	12,008,000
5,078,000	5,481,000	6,437,000	4,200,000	3,216,000	3,624,000	2,726,000	1,027,000
3,960,000	7,757,000	8,154,000	7,380,000	4,281,000	4,190,000	3,147,000	1,460,000
5,563,000	4,986,000	4,366,000	4,501,000	4,911,000	4,741,000	3,120,000	5,254,000
6,460,000	14,057,000	12,353,000	11,107,000	9,868,000	10,107,000	7,752,000	8,090,000
\$3.84	3.29	2.89	2.60	2.30	2.36	1.81	1.89
4,281,000	4,063,000	2,993,000	2,856,000	2,288,000	2,288,000	2,288,000	1,690,000
\$1.00	.95	.70	.67	.53	.53	.53	.47
1,850,000	51,031,000	39,136,000	28,598,000	35,431,000	24,653,000	13,653,000	11,212,000
9,280,000	29,047,000	26,976,000	29,048,000	18,507,000	17,362,000	22,084,000	21,324,000
0,238,000	61,118,000	63,709,000	60,502,000	54,411,000	56,799,000	55,098,000	52,887,000
3,000,000)	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -
3,368,000	141,196,000	129,821,000	118,148,000	108,349,000	98,814,000	90,835,000	85,423,000
6,095,000	6,230,000	4,939,000	3,039,000	2,551,000	2,508,000	2,348,000	2,400,000
7,273,000	134,966,000	124,882,000	115,109,000	105,798,000	96,306,000	88,487,000	83,023,000
4,283,295	4,278,145	4,275,345	4,275,345	4,290,495	4,290,495	4,290,495	4,290,495
\$34.38	31.55	29.21	26.92	24.66	22.45	20.62	19.35

Summary of Changes in Working Capital

	1965	1964
FUNDS PROVIDED		
Net income for the year	\$16,460,000	\$14,057,000
Depreciation and depletion	5,078,000	5,481,000
	<u>\$21,538,000</u>	<u>\$19,538,000</u>
Issue of 4¾% debentures	50,000,000	— 0 —
I.O.C. Debentures redeemed	3,027,000	5,045,000
Other	3,019,000	1,628,000
	<u>\$77,584,000</u>	<u>\$26,211,000</u>
FUNDS APPLIED		
Expenditures for plant and equipment	\$ 6,341,000	\$ 7,754,000
Working assets —		
Interests in associated companies	3,941,000	1,693,000
Interest in National Steel Corporation	58,750,000	— 0 —
Dividends to stockholders	4,281,000	4,063,000
Reduction of long-term debt	2,000,000	— 0 —
Other	1,452,000	806,000
	<u>\$76,765,000</u>	<u>\$14,316,000</u>
Net increase in working capital	\$ 819,000	\$11,895,000
Working capital at beginning of year	51,031,000	39,136,000
Working capital at end of year	<u>\$51,850,000</u>	<u>\$51,031,000</u>

IRON ORE — UNITED STATES

Wholly Owned Properties

Groveland Mine

Wauseca Mine
Douglas Mine
Algoma Mine
Rabbit Lake Mine
Spring Valley Group
Iron Mountain Mine

Affiliates and Partially Owned Properties

Butler Brothers
Butler Taconite Project

Hanna Ore Mining Company
National Steel Pellet Project

Pilot Knob Pellet Company

Managing Agents

Iron ore mines and properties
National Steel Corporation

Ore Sales Division

IRON ORE — CANADA

Affiliates and Partially Owned Companies

Iron Ore Company of Canada

Carol Pellet Company
Hollinger North Shore
Exploration Company, Limited
Labrador Mining and
Exploration Company, Limited

Managing Agents

Lowphos Ore Company, Limited — subsidiary of
National Steel Corporation



CONSOLIDATED SUBSIDIARIES

IRON ORE - OVERSEAS

Affiliates and Partially Owned Properties

St. John d'el Rey Mining Company, Limited	Open pit mines and properties; Brazil
Geraldton Joint Venture	Open pit mines; Western Australia
Ore Sales Agent	London, England; Brussels, Belgium

DOCKS AND VESSELS

Domestic

Operators of ore unloading and coal loading docks	Cleveland, Ashtabula, Sandusky, Philadelphia, Pa.
One wholly owned and one partially owned lake vessel	
Operators of lake vessels owned by National Steel Corporation	

Seaway

Partial ownership in three vessels operating in St. Lawrence Seaway

Ocean

Two wholly owned and two partially owned bulk cargo vessels	
Chartering and shipping agency	New York, New York
Partially owned ore and coal unloading dock	Rotterdam, Holland

NICKEL OPERATIONS

Wholly Owned Properties

Nickel Mountain Mine	Open pit mine and nickel smelter;
Hanna Smelter	Riddle, Oregon

